An Evaluation of the Service Quality in Kenyan Commercial Banks

By

Gachie Thomas Kareithi
D/61/P/8893/99

Supervisor: Dr WN Iraki

A Management Research Project Submitted for Partial Fulfillment of the Requirements for the Award of Master of Business Administration
School of Business
University of Nairobi

November, 2008

DECLARATION

This research project is my original work and has never been presented in any other University / College for the award of degree /diploma / certificate

Signature: ______________________ Date: 22/11/2008

Thomas K. Gachie

This research project has been submitted for examination with my approval as the University Supervisor

Signature: ______________________ Date: 2/12/08

Dr WN Iraki

DEDICATIONS

I dedicate my MBA studies to my wife and children for the encouragement they have given me to ensure that I put all my energies in completing the MBA programme from the University of Nairobi.

The programme has enabled me to have study sessions with my children and they now know the benefits of education

ACKNOWLEDGEMENT

I wish to thank my Supervisor Dr W Iraki for assisting me in completing the MBA programme. He has been able to give me new insights and directions to make this project a thorough and comprehensive report for submission to the standards of the University of Nairobi.

I also take this opportunity to acknowledge my employers during my MBA programme Co-operative Bank of Kenya and Standard Chartered Bank for the opportunity to access valuable data that has assisted me in preparing my report and also providing me with the opportunity to contribute to the company strategic planning.

Special thanks to Mr. Paul Sang who assisted in co-ordinating the research assistants in data collection and analysis

TABLE OF ABREVIATIONS

1.	ATM	Automated Teller Machines
2.	CBK	Central Bank of Kenya
3.	CFPM	Cross-Functional Performance Challenge
4.	CTR	Cyle Time Reduction
5.	KBA	Kenya Bankers Association
6.	SERVQUAL	Service Quality
7.	TQM	Total Quality Management
8.	UAE	United Arabs Emirate

TABLE OF CONTENTS

1.0 Introduction 1

1.1 Background 1

1.2 Statement of the Problem 8

1.3 Objectives of the study 9

1.4 Importance of the study 10

2.0 Literature review 12

2.1 Introduction 12

2.2 Background of Kenyan banking sector 12

2.3 Quality in the banking sector 15

2.4 Quality management studies in Kenya 17

2.5 SERVQUAL model 18

2.6 Dimensions of SERVQUAL 20

2.7 Expectations in service quality management 20

2.8 The importance of service quality measurement 21

2.9 Aligning the SERVQUAL model with service strategy 21

2.10 Other service quality issues: SIX SIGMA 24

2.11 Critical success factors of SIX SIGMA 25

2.12 Six SIGMA vs. SERVQUAL 29

2.13 Quality in Kenyan banks – SIX SIGMA in Citibank 27

3.0 Research methodology 31

3.1 Research design 31

3.2 Population of study 31

3.3 Sampling 32

3.4 Data collection method 32

4.0 Data Analysis 37

5.0 Conclusion 49

6.0 References 53

7.0 Questionnaire 56

APPENDIX I: LETTER FOR REQUEST OF RESEARCH DATA i

APPENDIX II: LIST OF BANKS IN KENYA ii

CHAPTER ONE

INTRODUCTION

1.0 Background

Service quality has become an increasingly important factor for success and survival in the banking sector (Central Bank of Kenya, 2002). This implies that the provision of high quality service facilitates the achievement of the main targets relating to customer satisfaction, loyalty, market share, gaining new customers, productivity, financial performance and profitability (Cui et al., 2003). In Kenya, there are 53 banks which have to compete for a share of the limited market size. Research in service quality provides a tool they can use to improve their levels of service quality initiatives.

The study of service quality in commercial banks in Kenya is of vital important since the banking industry constitute a large position of the financial sector in Kenya (Central Bank of Kenya, 2002). With stiffer competition among domestic and foreign banks, commercial banks in Kenya need to improve the quality of their services (Banking Survey, 2007). Further, increase in consumer tastes and preferences will force banks to improve on their services

As globalisation and liberalisation of financial institutions accelerate, competition among banks in offering products and services has become more intense. Customers in Kenya are more educated, better informed, leading to a demand for high quality services (Kenya Bankers Association, 2002).

Banking Services can be evaluated similarly as other major enterprises education, entertainment, food and lodging, transportation, insurance, trade, government, financial, real estate, medical, repair and maintenance-like occupations are defined as services (Heizer and Render, 1999). Services constitute an immaterial product produced to satisfy consumer needs (Kuriloff et al., 1993) and are carried out for someone else (Goetsch and Davis, 1998). In this, the most notable feature in service quality is how to improve the customer contact i.e. service experience

Service quality has two distinct constituents, the technical and the functional (Gronroos, 1984). Many researchers argue that, given their frequent inability to judge the technical quality of service, customers may see the functional service quality as the most important factor in a service transaction. On the other hand, much of the discussion about service quality measurement has revolved around the concept of dimensions of service quality where dimensions refer to a set of attributes which consumers use in evaluating the quality of service provided (Asubonteng, McCleary and Swan, 1996).

Similarly, many of the definitions of service quality revolve around the identification and satisfaction of customer needs and requirements (Cronin and Taylor, 1992:55-68; Parasuraman, Zeithaml and Berry, 1988; 1985). Parasuraman, Zeithaml and Berry (1985) argue that service quality can be defined as the difference between predicted, or expected, service (customer expectations) and perceived service (customer perceptions). If expectations are greater than performance, then perceived quality is less than satisfactory and a service-quality gap materializes. This does not necessarily mean that the service is of low quality but rather that customer expectations have not been met and hence customer dissatisfaction occurs and opportunities arise for the better fulfillment of customer expectations.

In the service industry the primary challenge is to truly satisfy consumer needs. Meeting this and/or maintaining this challenge is always difficult as human needs are rapidly changing. With this in mind, the service sector has been undergoing some revolutionary changes in which the established ways of doing business continue to be shunted aside. Research has shown that organizations that are innovative and continuously improving on their services will continue to offer new standards of services in markets where established competitors have failed to please today's demanding customers (Kotler, 1997). With these challenges and demands world-wide, service quality has been gaining a lot of prominence in research in recent years (Schneider and White, 2004)

Existing research indicates that consumers satisfied with service quality are most likely to remain loyal (Wong and Sohal, 2003). Service quality is perceived as a tool to increase value for the consumer; means of positioning in a competitive environment (Mehta, Lalwani and Han, 2000) and a means to ensure consumer satisfaction (Sivadas and Baker-Prewitt, 2000), retention and patronage (Yavas, Bilgin and Shemwell, 1997). With greater choice and increasing awareness, Kenyan consumers are more demanding of quality service (Odera,2000) and players can no longer afford to neglect customer service issues (Kassem, 1989).

It is difficult to measure service quality as compared to good's quality. The difficulty to measure is due to fewer tangible cues available when consumers purchase services (Parasuraman et al., 1985), fewer search properties, but higher in experience and credence properties (Zeithaml, 1981, Parasuraman 1985), as compared to goods. It also requires higher consumer involvement in the consumption process (Grönroos, 1984).

Researchers operationalize the service quality construct either as a gap between expectation of service and perceived performance of service, or just perceived performance alone (Hurley and Estalami, 1998). On the other hand, service quality dimensions are seen as the criteria to assess service quality (Parasuraman, Zeithaml, and Berry, 1985). Feinburg, and de Ruyter (1995) supported this idea as they postulate that the dimensions are instruments for measuring perceived service quality. They also posit that consumer-perceived service quality is usually seen as a multi-dimensional construct.

One notable research on service quality dimensions was done by Grönroos (1984). He found that the perceived quality of a service is affected by the experience that the consumer went through for a service. Therefore, he encapsulated the perceived quality of a given service as the outcome of an evaluation process; a comparison between the consumer expectations of the service with his perceptions of the service he has received. He also pointed that expectation is influence by traditions, ideology, word-of-mouth communication, and previous experience with the service and the consumer's perception of the service itself determines his perceived service. However, he did not discuss the relationship between perception and expectation and how it influences service quality.

Grönroos (1984) found that "service quality" comprises of three global dimensions. The first dimension is the technical quality. This dimension refers to the outcome or what is delivered or what the customer gets from the service. For a commercial bank, technical quality may include the range of products offered. The next dimension is the functional quality which refers to the manner in which the service is delivered or how it is delivered. Customers of a commercial bank will measure whether the bank staffs are friendly or whether products are easily declined after sales. Finally, the last dimension is the corporate image. The bank's image is built by mainly both technical and functional quality and to some extent other factors like the traditional marketing activities.

The most popular service quality model in the 1990s (Robinson, 1999) is the model by Parasuraman et al., (1985). Their model supported Grönroos' findings on as the models are based on these three underlying themes: - service quality is more difficult for the consumer to evaluate than goods quality; service quality perceptions result from a comparison of consumer expectations with actual service performance; and quality expectations are not made solely on the outcome of the service; they also involve evaluations of the process of the service" (Parasuraman et al., 1985)

Unlike Grönroos (1984) who used global measure of service quality, Parasuraman et al. (1985) identified 97 items or criteria in measuring service quality. They argued that consumers used similar criteria irrespective of the type of service in measuring service quality. They then group these criteria into 10 key categories which they labeled as "service quality determinants". The determinants are reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer, and tangibles. Later in another research (Parasuraman et al., 1988), refined the dimensions into only five dimensions - tangibles, reliability, responsiveness, assurance, and empathy

The Parasuraman model on service quality was derived from the magnitude and directions of five gaps as follow (Lewis and Mitchell, 1990):

Gap 1 (Understanding): the difference between consumer expectations and management perceptions of consumer expectations

Gap 2 (Service standards): the difference between management perceptions of consumer expectations and service quality specifications

Gap 3 (Service performance): the difference between service quality specifications and the service actually delivered

Gap 4 (Communications): the difference between service delivery and what is communicated about the service to consumers

Gap 5 (Service quality): the difference between customer expectations of service quality and customer perceptions of the organization's performance

Brown and Bond (1995) notes that "the gap model is one of the best received and most heuristically valuable contributions to the services literature". The model identifies seven key discrepancies or gaps relating to managerial perceptions of service quality, and tasks associated with service delivery to customers. The first six gaps (Gap 1, Gap 2, Gap 3, Gap 4, Gap 6 and Gap 7) are identified as functions of the way in which service is delivered, whereas Gap 5 pertains to the customer and as such is considered to be the true measure of service quality. The Gap on which the SERVQUAL methodology has influence is Gap 5.

The GAP 5 approach is demonstrated by using the SERVQUAL instrument which provides a means for evaluating service quality since it seeks the opinion of the customer (service recipient) and employee (service provider) and is believed to affect the future decisions of an organization thus determine whether there are any performance improvement strategies in place (Cronin and Taylor, 1992).

Little is known about *SERVQU*AL perceptions in Kenya because research focus has primarily been on developed countries (Herbig and Genestre, 1996). Given the relatively mature markets where the service quality scales have been developed, it will be important to determine whether these measures would be applicable in Kenya without adaptation with special reference to the Kenyan banking sector.

1.1 Statement of the Problem

This study has been necessitated by frequent complaints by bank consumers in the local daily newspapers of poor service by their banks (Daily Nation – watchdog column, August, 3 2006). Most complaints have been as a result of long queues in banking halls, delays in clearing cheques and other services, unexpected charges on their accounts and denied credit/loans due to stringent credit rating scores. There has been an increasing trend amongst customers to have multiple bank accounts with different banks. Loyalty and brand switching can be attributed to dissatisfaction in service quality (Zeithaml, Valarie, Berry, et al 1993)

Smaller banks in Kenya are seen as offering more personal services (Zain & Rejab, 1998) but with inadequate range of products; a contrast to the larger banks which are seen as offering better choice with greater attraction to the public (Moreira, 2003) but with standardized and non-personalized services (Zain & Rejab, 1998). With increased competition in the urban areas, smaller banks are looking for ways to expand their customer base while retaining their current service quality standard (Moreira, 2003).

Kenyan banks have been experiencing good returns on investments, a situation that is explained by the huge profits the banks are able to report to their stakeholders at the end of each financial year, which is far much greater than the performance of the other sectors in the economy. There has been a concern within the Kenyan population that the banks are more concerned with their profits with the customer's interests being regarded as a secondary concern. This has been demonstrated with the banks concentrating more of their assets in Treasury Bills and Bonds prior to 2002 (Government of Kenya Economic Survey, 2002). From this, are internal policies, procedures, and administrative structures for commercial banks geared towards providing better service delivery to the customer?

Cronin and Taylor (1992) have shown that service quality is a vital antecedent of customer satisfaction. Data that was used to show this was based on 22-item instrument known as SERVQUAL for measuring service quality (Parasuraman et a, 1988) which is based on: expectation of the customer, Perception of performance and Importance of the service. With this, how many banks have embraced SERVQUAL as a means of evaluating service quality?

This study therefore will apply the SERVQUAL model to determine the service quality in commercial banks in Kenya. This model will be a more objective measure than the adverts

1.2 Objectives of the study

- The aim of the study is to evaluate the quality of service in commercial banks in Kenya using the SERVQUAL model. The specific objectives are:
- To determine what are the service quality priorities being employed by large and smaller commercial banks in Kenya;
- To determine whether banks have any defined service quality models and how these models relate to the SERVQUAL model;

- To determine whether banks adhere to their existing service quality models.
- To compare the quality levels in selected Kenyan banks

1.3 Importance of the study

- Banks and other organizations can be able to increase the levels of efficiencies and effectiveness in operations thus reducing wastage which leads to reduction in organization expenses thus higher profits.
- The study is important to commercial banks since if used, it may lead to increase in market share because the customers will be attracted by the perceived high service quality. This will lead to higher sales thus higher profits
- Having published research information, customers will be able to determine which banks are providing the quality service based on their specifications. The SERVQUAL model seeks information from customers on their perspective on quality of service.
- With banks and other organizations expanding their operations within East Africa region, organizations from Kenya will be able to compete effectively with other organizations within the region by providing quality service as depicted in the study. This will be in line with one of the pillars of the Kenya Government vision 2030 strategies to make Kenya the hub of world class service centre.
- The study will provide a framework for researches in other sectors of the economy using SERVQUAL and also create opportunities of comparing SERVQUAL against other models of Service Quality.

- The study will encourage banks to publish SERVQUAL results in conjunction with the financial results to evaluate the overall performance of banks in the economy.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In building this literature review, the objective will be to review literature in quality services models and measurements. The main focus will be in the SERVQUAL Model. The SERVQUAL instrument will provide a starting point and assist in the prioritization of the service improvement activities. These activities are best guided by having an operation service strategy thus the need to build on an operations strategy (Roth and Van der Velde 1991).

2.2 Background of Kenyan Banking Sector

Commercial banking took root at the turn of the 20th Century with the partitioning of Africa by European imperial powers. The National Bank of India, later to become National and Grindlays and part of which was bought out to form KCB and the remainder subsequently became Stanbic, opened an office in Mombasa in 1896. The Standard Bank of South Africa followed in 1910 and the National Bank of South Africa in 1916. The National Bank of South Africa merged with the Colonial Bank and Anglo-Egyptian Bank Limited to form Barclays Bank in 1926. By the end of the Second World War, the three pioneering banks had opened a total of 17 branches.

The Exchange Bank of India registered in 1928 and operated without interruptions until 1949. Ismailia Corporation Limited, now Diamond Trust, and Savings and Loans (K) Limited had been operating since 1940 and 1949, respectively. A Dutch bank incorporated in the Netherlands, now known as ABN-AMRO, opened a branch in 1951. Two other Indian banks, the Bank of India and Bank of Baroda, entered the scene in 1953 followed by Habib Bank from Pakistan in 1956. A Turkish bank, the Ottoman Bank opened a branch in 1958. The Commercial Bank of Africa, registered in Tanzania in 1962, opened a branch in Kenya the same year.

The financial system at independence in Kenya consisted of nine foreign owned commercial banks with the Central Bank of Kenya being established in 1966. After the split of the East Africa Community in the 1977 three parastatal commercial banks were established to serve the local indigenous market.

The banking sector in Kenya was afflicted by a lot of turbulence in the early 1990's. Rapid inflationary increase in the money supply accompanied the widespread fragility and fraud in the sector. Under pressure from the World Bank and IMF to correct the anomaly, Central Bank of Kenya put sixteen (16) financial banks under liquidation in the periods of 1993 – 1994, while re-capitalizing others. To date there are 44 commercial banks represented in the Kenyan Central Bank Clearing House.

Assets of the banking sector increased to Ksh. 449.9 billion at the end of July 2002 from Ksh. 431.1 billion at the end of July 2001. Non-performing loans, net of interest in suspense, were estimated at Ksh. 73.1 billion in July 2002, compared with Ksh. 78.6 billion in July 2001. Provisions for the non-performing loans declined from Ksh. 32.8 billion in July 2001 to Ksh. 31.1 billion in July 2002. Taking into account the provisions and the value of securities held by the banking sector estimated at Ksh. 36.1 billion, Ksh. 8.5 Billion of non- performing loans were unsecured (CBK Economic Report, Sept. 2002).

There has been major regulatory, structural and technological factors that have significantly changed the way business is conducted in this industry (Market intelligence, 2004) The regulatory changes have reduced or eliminated trading barriers which have allowed banks to have a greater range/variety of products resulting in greater competition (KBA, 2003).

In the 1980s and 1990s increased competition due to technology, social and cultural factors were regarded as the chief drivers of service quality initiatives (Thaler and Richard, 1985). Increasingly technological changes have led to banks to rethink their strategies for regarding services offered to commercial and individual customers (Market Intelligence, 2004). These technological changes brought about accurate record keeping, processing and retrieval of information at higher speeds and these was attributed as a factor of quality service (Johnson and Scholes, 2002)

The choice of service to be offered by the commercial banks was further strengthened by the deregulation of the services restricted only to Building societies in 1998. With these changes in the banking sector, traditional players found themselves competing against each other for the personal customers of current accounts, savings products, personal loans, mortgages, credit cards insurance products and custodial services (KBA. 2003).

New entrants are continuously being attracted by the liberalization in the industry to the point that they are able to pick their way into profitable segments and niche products in an expanding market as household income and wealth increases substantially (Harrison, 2000). The bank providing a variety of services to customers would then be regarded as providing quality service due to the one stop shop concept.

In discussing the performance in the banking industry one cannot fail to mention the restructuring in the treasury operations which has lead to the freeing up of the much needed tied capital in fixed assets and converting it for use in technological investments. This has lead to the reduction in fixed costs and operational/transactional costs through deployment of automation i.e. Automated Teller Machines (ATMs), Electronic Funds Transfers (EFT) and electronic clearing and recently Internet banking. This has provided for banks to move from the process driven control check to a sales and customer oriented service operation championed by service quality models (Dalton, 1998).

With all these developments in the banking industry it is important to evaluate the service quality in commercial banks in Kenya.

2.3 Quality in the Banking Sector

In the banking industry, the study on service quality has been undertaken by Yavas et. al. (1997), Bahia and Nantel 2000; Lassar et. al., 2000; Duncan and Elliott, 2002; Githaiga (2003). In the study of service quality in the banking sector in Turkish banking, Yavas et. al. (1997), focused on the relationship between service quality on consumer satisfaction, complaint behaviour and commitment. Their study found that overall service quality was a significant determinant customer satisfaction, complaint behaviour and commitment.

Bahia and Nantel (2000) suggested alternative scale for the measurement of perceived service quality in retail banking. Their study found that when comparing BSQ dimensions and SERVQUAL, it seemed that BSQ dimensions were more reliable than SERVQUAL. On the other hand, Lassar et. al. (2000) studied service quality using two major service quality constructs, SERVQUAL and Technical/Functional Quality models to the private banking industry. They found that Technical/Functional Quality-based model of service quality is better suited compared to SERVQUAL-based model. Duncan and Elliot (2002) however explored the relationship between customer service quality and financial performance in Australian banks and credit unions. They found that there was significant relationship between financial performance and customer service quality scores.

Jabnoun and Al-Tamimi (2002) examined service quality at UAE commercial banks using SERVQUAL model and included thirty items in the five dimensions of SERVQUAL. When they tested the developed instrument for reliability and validity, they found that the instrument had only three dimensions.

Arasli et. al. (2005) studied service quality perceptions of Greek Cypriot bank customers using SERVQUAL model. They however, extend the study by looking at the relationship between service quality, customer satisfaction and positive word of mouth. They found that the expectations of bank customers were not met where the largest gap was obtained in the responsiveness-empathy dimension. In addition, the reliability items had the highest effect on customer satisfaction, which in turn had a statistically significant impact on the positive word of mouth.

2.4 Quality management studies in Kenya

There is a number of quality management studies conducted in Kenya. These studies have been predominant in the manufacturing sector with a few in the service sector. One notable study is the survey of the Total Quality Management Practices in the Kenyan commercial banks (Githaiga, 2003). In her study the focus was on the application of TQM model based on the evaluation of the following parameters: Loan ratio (whether too low or too high), equity base, liquidity ratios, loan portfolio, margin, savings and checking accounts (whether processing is accurate). This study is more on the internal capacity with no parameters to evaluate customer perception.

In the other studies, that have been conducted it is evident that TQM has not been fully incorporated in organizations though there is general acceptance that quality is a key goal in all the company's operations (Kiiru, 2006, Odero, 2000, Omufria, 2001). From these studies, it is evident that the emphasis has been to use quality to bring about change in internal capacity. Omiti (2003) shows that with implementation of effective TQM programmes there will be improved financial performance. Riungu (2006) shows how

TQM can lead to improvement in efficiency, although efficiency has direct impact on customer satisfaction.

This study will break new grounds by developing an understanding of the perceived service needs of target customers. These measured perceptions of service quality for the organizations in question will then be ranked. Comparisons can then be made against organizations that are perceived to be excellent based on the ranking. Organizations may use this information as drivers for service quality improvement (T. Samson,1997)

2.5 SERVQUAL model

The SERVQUAL scale is the principal instrument for assessing quality encountered in the services marketing literature (Parasuraman, Zeithaml and Berry, 1988; 1991). This instrument has been widely utilized by both managers (Parasuraman, Zeithaml and Berry, 1991) and academics (Babakus and Boller, 1992; Carman, 1990) to assess customer perceptions of service quality for a variety of services (e.g. banks, credit card companies, and repair and maintenance companies).

The results of the initial published application of the SERVQUAL instrument indicated five dimensions of service quality which emerged across a variety of services. These dimensions include tangibles, reliability, responsiveness, assurance and empathy (Zeithaml, Parasuraman and Berry, 1990; Brensinger and Lambert, 1990; Crompton and MacKay, 1989). Tangibles are the physical evidence of service, reliability involves consistency of performance and dependability, responsiveness concerns the willingness or readiness of employees to provide services, assurance corresponds to the knowledge and courtesy of employees and their ability to inspire trust and confidence, and finally, empathy pertains to the caring, individualized attention that a firm provides it customers (Lassar, Manolis and Winsor, 2000).

In its original form, SERVQUAL contains 22 pairs of Likert scale statements structured around five service quality dimensions in order to measure service quality (Cronin and Taylor, 1992). Each statement appears twice. One measures customer expectations of a particular service industry. The other measures the perceived level of service provided by an individual organization in that industry. The 22 pairs of statements are designed to fit into the five dimensions of service quality. A seven-point scale ranging from "strongly agree" (7) to "strongly disagree" (1) accompanies each statement. The "strongly agree" end of the scale is designed to correlate with high expectations and high perceptions. Service quality occurs when expectations are met (or exceeded) and a service gap materializes if expectations are not met. The gap score for each statement is calculated as the perception score minus the expectation score. A positive gap score shows that expectations have been met or exceeded and a negative score demonstrates that expectations are not being met. Gap scores can be analyzed for each individual statement and can be aggregated to give an overall gap score for each dimension (Parasuraman, Zeithaml and Berry, 1988).

In the banking industry, gap analysis has been accepted as a critical tool to measure current levels of service quality (Lewis, 1991). There have been a number of empirical studies dealing with service quality in the banking sector in the application of SERVQUAL (Lee and Hwan, 2005)

2.6. Dimensions of SERVQUAL

The dimensions of SERVQUAL can be defined listed as :- Reliability: This dimension refers to the ability to perform the service dependably and accurately; Responsiveness: This dimension refers to the willingness to help customers and provide prompt service; Tangibles: This dimension refers to the physical facilities, equipment and appearance of personnel; Assurance: This dimension refers to employee's knowledge, courtesy and ability to convey trust and confidence; and Empathy: This dimension refers to the level of caring on individual attention provided to customers.

2.7 Expectations in service quality measurement

The gap between performance and expectations is the basis for measuring service quality (Parasuraman et al, 1988). This theory supports the earlier arguments that service quality is based on a comparison of expectations with perceptions about performance (Lewis and Booms, 1983). Cronin and Taylor argue that there is little evidence to support the notion of the expectations – performance gap as basis for measuring service quality (Cronin and Taylor, 1992). Disconfirmation is relevant to the formation of service quality attitudes through the moderating effect of customer satisfaction, but it not relevant to service quality measurement.

Though there have been arguments in favour of a performance only measure SERVPERF (Quester et al, 1995), strong inclination has been on SERVQUAL since the measurement scale followed uses a more scientific approach in its scale. The scale development is more firmly based on literature than the SERVPERF scale (Parasuraman, 1994).

2.8 The importance of service quality measurement

The initial version of the SERVQUAL instrument only measured expectations and performance thus failing to measure the importance of the various features entailed in service quality (Parasuraman et al, 1988). Arguments were brought forward to show that the various features of service quality are quite distinct from the customer expectations and thus their relevance in the assessment of service quality (Carman, 1990).

In 1991 Parasuraman introduced importance weights in the SERVQUAL instrument and it involved asking respondents to assign importance weights to a hundred descriptions each with five dimensions. These weights were then used to provide a weighted average of the overall service quality score (Parasuraman at al, 1991).

2.9 Aligning the SERVQUAL Model with Service Strategy

Most models of consumer satisfaction—and service quality—maintain that discrepancies between *ex ante* expectations of a good or service and the product's *ex post* performance are the best predictors of the satisfaction or quality perceived by the customer (Oliver 1977, 1980; Parasuraman, Zeithaml, and Berry, 1985, 1988). Satisfaction has been shown to be a significant predictor of brand choice (Kasper, 1988; Newman and Werbel, 1973) and purchase intentions (LaBarbera and Mazursky, 1983; Oliver, 1980).

The rate at which consumers adjust their expectations to meet perceived product performance can be affected by the variability of a product's performance, the ease with which it can be evaluated, the degree of involvement with the product, the completeness and accuracy of information that forms expectations, and the precision with which a product's level of performance is recalled. Adjustments to expectations are likely to be swift when the product is easily evaluated, but slow when a product is complicated and has many attributes (McQuitty, Shaun, Adam Finn, James B. Wiley, 2000).

Satisfaction might change predictably over repeated product experiences, and the consequence of changes in consumer satisfaction. The scenario contains an important implicit assumption that some degree of disconfirmation exists after the initial product experience. If there is no disconfirmation then expectations exactly meet perceived performance, or else the difference between the two is so small as to be ignored. Woodruff, Cadotte, and Jenkins (1983) discuss a "zone of indifference" where there is little or no difference between expected and perceived performance. They suggest that

> “For most people, performance outside the zone of indifference is probably the exception rather than the common occurrence. Otherwise consumers would be in a frequent state of excitement or frustration. ...brand experiences outside of the zone of indifference are much more likely than more typical experiences to explain the dynamic shifting of reference performance norms over time. ...If companies do not strive constantly for exceptional performance, positive satisfaction with the brand will slowly decay through the brand's repeated use or through the introduction of similar, "me-too" brands. …Consequently, the consumer eventually will have either a neutral or no emotional response to the evaluation of focal brand performance” (pp. 300-301).

Measures of service quality usually represent customer perceptions rather than objective indicators of quality (Zeithaml, 1988; Bitner and Hubbert, 1994) and service quality and customer satisfaction therefore tend to be highly correlated. There have been many refinements and extensions to the gaps models, but the essential ingredients have hardly changed. For example, despite the discussion in the marketing literature regarding what forms of expectations are most appropriate for measuring consumer satisfaction and service quality (e.g., Cote, Foxman, and Cutler, 1989; Spreng, MacKenzie, and Olshavsky, 1996; Teas, 1993, 1994; Zeithaml, Berry, and Parasuraman, 1993), a comparison between some form of expectations and perceived performance remains the popular standard.

Customer-oriented management philosophy maintains the notion that management ought to consider customers when determining what improvements are needed. That is, the managerial actions should be taken from customers' viewpoints. Maintaining customer satisfaction and sufficing customer value are an important and effective way for businesses to gain competitive advantage. Repeat business from satisfied customers generates long-term revenue that is key to profitability. The SERVQUAL model can be used to compare the level of service provided by one company against another and form a basis for implementing retention strategies (Kingman-Brundage et al, 1995).

The problems that erode the customer value and the improvement opportunity that enhances the customer value can be discovered through auditing the service experience of customers. The SERVQUAL model may be used as a tool to assess the service experience by customers, which in turn can be used by management to put in place controls and corrective measures to the service (Shostack, 1984).

The universal reality that managers must work with constrained resources in a competitive environment means that potential service improvements must be prioritized, with resources going to those changes that offer the possibility of producing competitive advantage. The SERVQUAL model measures customer perceptions of the services offered by the organization and its competitors that permit inferences about the customers' priorities for service improvements (Berry et al 1994, Woodruff 1997).

2.10 Other Service Quality Issues: SIX SIGMA

In early management practices, principles of quality which resemble the modern SERVQUAL and SIX SIGMA were employed manufacturing at a very rudimentary level. Andrew Carnegie employed all the principles SIX SIGMA and SERVQUAL but missed out the concept of including workers as part of his team. One of the critical lessons learned from Carnegie was his personal engagement in quality in the manufacturing process and his personal selection of managers who would transform his goals into action through continuous improvement and innovation (Giese, Joan L. and Joseph A. Cote. 2000).

In an organization practicing six sigma, the principles and /or methodologies that are in place are about systems, measures and goals geared towards improvement (Perry, 1991).

With management systems, the management should aim to achieve lasting business leadership and top performance applied to benefit the business, its customers, associated and shareholders. In six sigma measures are used to define the capability of any process with goals set so that improvements can reach near-perfection levels.

2.11 Critical Success factors of six sigma

Customer Centricity

The six sigma culture is customer –centric. Its goals are aimed at delighting customers. The quality of a product or service is measured from the customer's perspective, by its contribution to their success. This customer focus comes through the six sigma drivers (Gronroos ,1988):

Voice of the customer: Forum where customers say what they want

Requirements: These are derived from the voice of the customer sessions and are translated into specific measurable elements.

Critical to Quality: These are requirements that are most important to customers

Defect: This is as a result of not delivering to customer's CTQ.

Design for Six Sigma: Designing products and processes based on the customer requirements.

Financial Results

In quality projects there is no defined rule for prioritization of such projects. In most cases the management intuition is engaged and this leads to a very subject and in some cases disregard to cost to the corporation or value to the customer. In six sigma initiatives, the financial performances are paramount with explicit financial benefits expected from each and every effort (Duncan and Elliot et al., 2002).

Management engagement

Six Sigma cultures sets in place the infrastructure needed for success anchored by strong management involvement. Due to the financial gains envisaged through six sigma, top management is usually interested with the progress monitoring exercise (Bienstock, Mentzer and Bird et al, 1997).

Resource Commitment

Six Sigma processes involve the use of the project matrix organization structure. This provides for full time resources to the quality initiative processes. Also, the use of highly skilled resources known as black-belts and champions assist in addressing the issues of quality as entailed in the six sigma methodology (Duncan and Elliot et al., 2002).

2.12 Six Sigma vs SERVQUAL

Both address the issue of meeting customer requirements with six sigma using interactive sessions known as voice of the customer whereas SERVQUAL uses questionnaire based techniques.

In voice of the customer sessions, too much of the management time is used and if not well moderated such sessions can be time consuming. With questionnaire system, the process can be outsourced with respondents being open and outright giving responses due to anonymity. The turn-around for responses is short due to the explicit question phrased in lickert scale (Gounaris, Stathakopoulos, and Athanassopoulos et al . ,2003).

2.13 Quality in Kenyan Banks - Six Sigma at Citibank

Citibank undertook the challenge to be a premier international financial company and to improve customer satisfaction by applying manufacturing management theories to their non-manufacturing environment. Cycle time reduction (CTR), coupled with the detection of defects using Six Sigma methods, implemented globally by empowered teams, have resulted in significant improvements in process timelines, cash management and customer loyalty and satisfaction.

Citibank established a Cross-Functional Performance Challenge (CFPM) within its banking divisions, using the Six Sigma methodology to identify defects, CFPM to map improvement and teamwork to correct the defects. CFPM eliminates wasteful steps, which are defined “as any activities that don't contribute to the goal of meeting customers' needs.”

Identifying defects using Six Sigma

Citibank's Private Bank Customers sometimes initiate manual funds transfers, calling their banker and then faxing, phoning or mailing in requests to have the transaction processed. The process was so complicated and customers complained, mostly about the time it took to complete the process.

A team of bankers and operations people examined the funds transfer process, tabulating defects and analyzing them using Pareto charts. Large numbers of defects were due to the internal call-back procedure, which required staff to call the person requesting the funds transfer to make sure that the instructions were correct and hadn't been altered.

To reduce the time for opening an account, Citibank formed a cross-functional global team of 80 people. The team identified sponsors and formed a steering committee to champion the effort. Employees were invited to participate based on their subject matter expertise and ability to assist with the solution. The largest obstacle was enabling them to find time to participate while juggling daily job responsibilities.

Working together

The first step in process mapping was by establishing a team, typically of 30 to 50 people, drawn from every unit that contributes to the process. Cross-functional teams, made up of representatives from each functional department, develop maps. They included employees deep within the company--the "doers" of the current process. Because of their close vantage point, these employees can offer valuable insight into daily business operations. Management empowered the team to implement any changes they develop that will reduce the cycle time and improve customer satisfaction.

People helping people

For CFPM to work there was commitment at all levels, with everyone taking leadership roles. Key team members spend one-fourth of their time on the project. Team leaders spend at least three-fourths of their time for up to a year. When these teams are challenged to reduce cycle times within their departments, they become empowered to make improvements, which improve the corporate culture.

2.15 Conclusions

This study has been able to contribute to previous research findings (Odero, 2006) in that using the value chain concept, banks will be able to realize a competitive advantage so as to position themselves so as attain superior financial performance. This sustainable competitive advantage is one that can be maintained for a significant amount of time in the presence of competition through progressive surveys using SERVQUAL

From the study by Waithaka (2006) some of the methods of measuring customer expectations have been complaints, mystery customers, lost customer analysis. Such methods tend to be more reactive than proactive and continuous improvement techniques such as the SERVQUAL.

The overall success of the SERVQUAL method depends on how a bank or any other organization is responsive to the analysis after collecting customer responses to the question

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This study used quantitative methods which rest on the belief that individuals, groups, organizations, and the environments in which they operate have an objective reality that is relatively constant across time and settings. Consequently, it is possible to construct measures that yield numerical data on this reality, which can then be further probed and interpreted by statistical analyses. In contrast, qualitative research methods are rooted in the conviction that "features of the social environment are constructed as interpretations by individuals and that these interpretations tend to be transitory and situational" (Allen, M.J, 1979). It is only through intensive study of specific cases in natural settings that these meanings and interpretations can be revealed and common themes educed.

The study used survey method based on the simple random sampling technique. The primary data used in this study was collected by means of structured questionnaire. The questionnaires gathered qualitative as well as quantitative data pertaining to profitability, customer satisfaction, employee satisfaction, operations, and service quality measures of selected banks in Kenya.

3.2 Population of Study

The study targeted all the account holders in all the commercial banks in Kenya whose customer population is estimated to number 3,800,000 (Market Intelligence, 2007). A distinction has been noted between number of accounts and customers, in that one customer may have several accounts in one bank and also across several banks. In such circumstances, the customer was regarded as one and not by the number of accounts.

3.3 Sample of Study

Due to constraints with regard to time and cost the total respondents used in this study was 300. The research assistants were positioned at branches and approached customers with the request to serve as respondents to the questionnaire in this study. The first 300 customers to complete the questionnaire based on the following distribution served as the sample

Central Business District: 10 banks with each bank having 15 customers as respondents.

Nairobi environs: 10 banks with each bank having 15 customers as respondents.

3.4 Data Collection Method

Data was collected using a questionnaire. The questionnaire was designed based on the SERVQUAL model and thus provide feedback as to its relevance to the Kenyan environment.

3.4.1 Questionnaire design

By using the SERVQUAL technique the objective was to identify the service quality shortfalls and strengths. Since the customer profile for each bank was difficult to obtain due to the confidentiality of data maintained by banks, the research assistants were positioned at branches and approached customers with the request to serve as respondents to the questionnaire in this study.

Banks staffs were approached with the intention of identifying whether there are structures in place, which facilitate the virtues of service quality and quality enhancement. With this in mind, a questionnaire was developed and handed over to customer service managers.

The survey used a questionnaire with responses graded on Likert scale of 1 to 5 with 1 being the lowest and 5 the highest. The respondents were asked to fill in two forms - one measuring expectations and the other perceptions (23 and 12 questions respectively). Questions were similar and included the factors of tangibles, reliability, responsiveness, assurance and empathy.

A series of qualitative questions was also asked in personal interviews to reinforce the quantitative data with more detail. When conducting the personal interviews the rating provided was justified by a genuine reason to prevent bias. The survey process was required to last for a period of 4 weeks to ensure that information collected was a true representation of the actual market position.

3.4.2 Handling of Customer Information

Distribution of the questionnaires was done by a group of interns who were positioned in the various branches/banks in Nairobi and its environs. Their role was to provide customers to bank services with the questionnaires. Prior arrangements were made with the management to allow the presence of the interns.

A letter was provided to introduce the research assistance and the purpose of the study and the role of the questionnaire and explaining why it is being implemented. The research assistants guided the respondents through the completion of the questionnaire and carefully sealed the responses in an envelope that will be provided for each questionnaire.

3.5 DATA ANALYSIS

The data was analyzed using descriptive statistics to generate frequencies, proportions, tables and charts. Cross tabulation was used to compare several variables that are related. This analysis enabled the researcher to meaningfully describe the distribution of scores or measurements of variables in the study. Correlation analysis was used to determine whether there is any correlation between customer satisfaction and use of SERVQUAL model.

The analysed data is expected to obtain the following information:

Descriptive techniques

Statistics used to describe only the observed group or sample from which they were derived; summary statistics such as percent, averages, and measures of variability that are computed on a particular group of individuals. The type of comparisons that will be provided are: demographics collectively and for each service of the participating consumer group and the mean score, median score, variance and standard deviation of each question to ensure the validity of the results.

Descriptive analysis techniques generally provide the following feedback:

Graphical description, require the use of graphs to summarize data. Examples: histograms, scatter grams, bar charts and pie charts; Tabular description which uses tables to summarize data examples: frequency distribution; Parametric description which is used to estimate the values of certain parameters which summarize the data as follows:

- Measures of location or central tendency : arithmetic mean, median, mode and interquartile mean
- Measures of statistical dispersion: standard deviation, range (statistics), interquartile range and absolute deviation.
- Measures of the shape of the distribution : skewness and kurtosis

Cross Tabulation Technique

This is a statistical technique that establishes an interdependent relationship between two tables of values, but does not identify a causal relationship between the values; also called two-way tabulation. The data to be analysed will be:

- Comparison between the emphasis of quality dimensions considered in the KBA Standards and those allocated by service customers.
- The collective score for each dimension and the degree to which consumers agree with it so as to represent the quality in service provision. This will be reported as a percentage of the total scores recorded across the five SERVQUAL dimensions plus value.

- Any indicators present for particular difference of viewpoint between distinct segments of the group of respondents e.g. Gender and service type
- Ranking of the priorities per bank

CHAPTER FOUR

DATA ANALYSIS

4.1. Demographic Findings

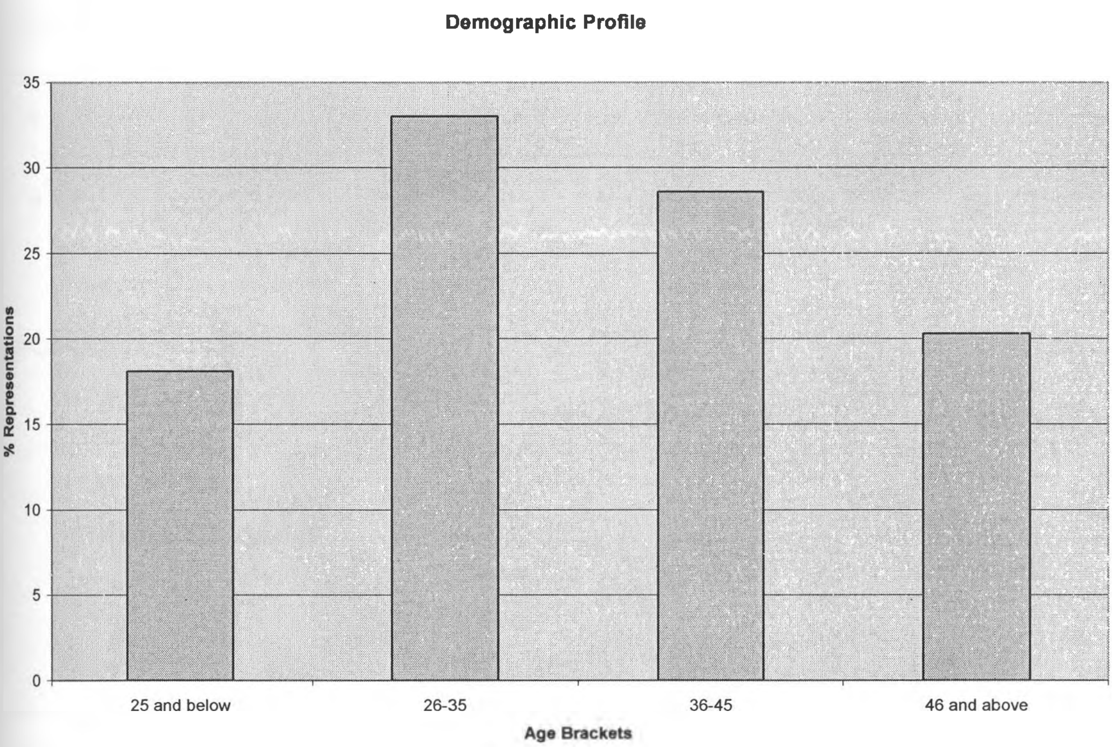
The basic findings related to demographic characteristics bank customers examined in the survey are given in Table 1 based on the 227 responses from the 300 questionnaires provided initially which represented 75.6 %

Table 1: Demographic Findings

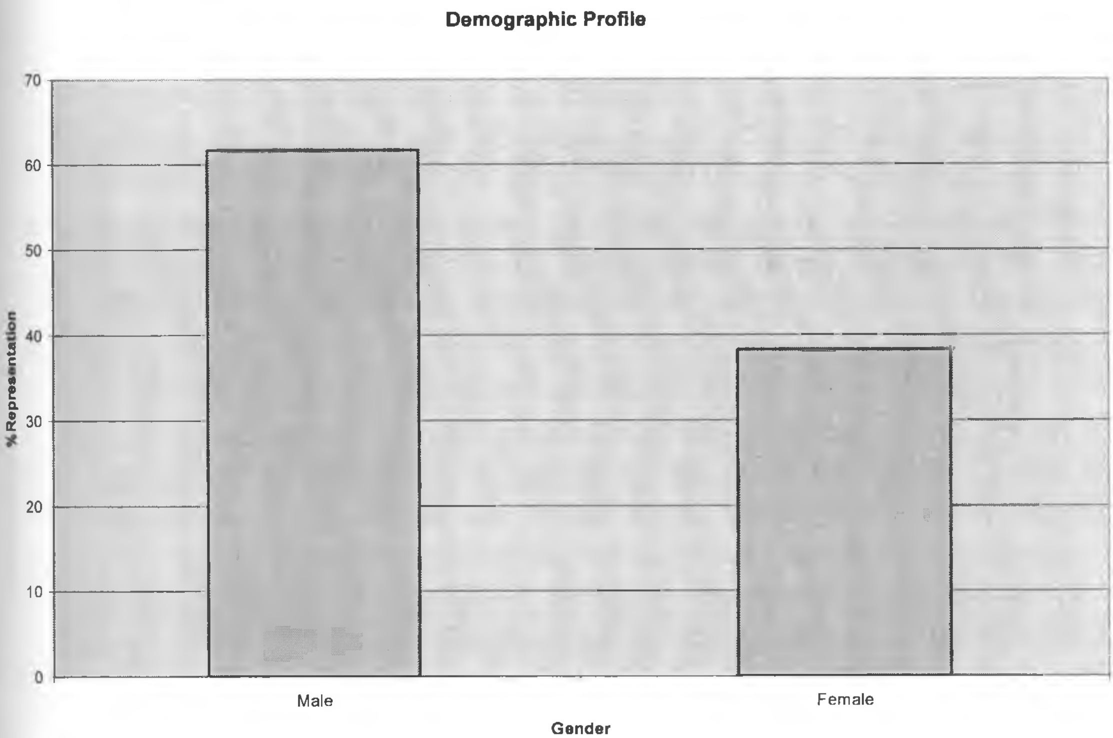
Factor	Category	**Percentage**
Gender	Male	61.7
	Female	38.3
	25 and below	18.1
	26-35	33.0
	36-45	28.6
	46 and above	20.3
Marital status	Single	26.4
	Married	69.6
	Widow	4.0
Business Sector	Agriculture	1.3
	Industry	5.7
	Construction	8,4
	Trade-Tourism	38.8
	Transport-Communication	2.2
	Financial institutions	3.1
	Business and Personal Services	40.5
Bank Types	International Banks	23.3
	Local banks	68.3
	Other Financial Institutions	8.4

Source: primary data

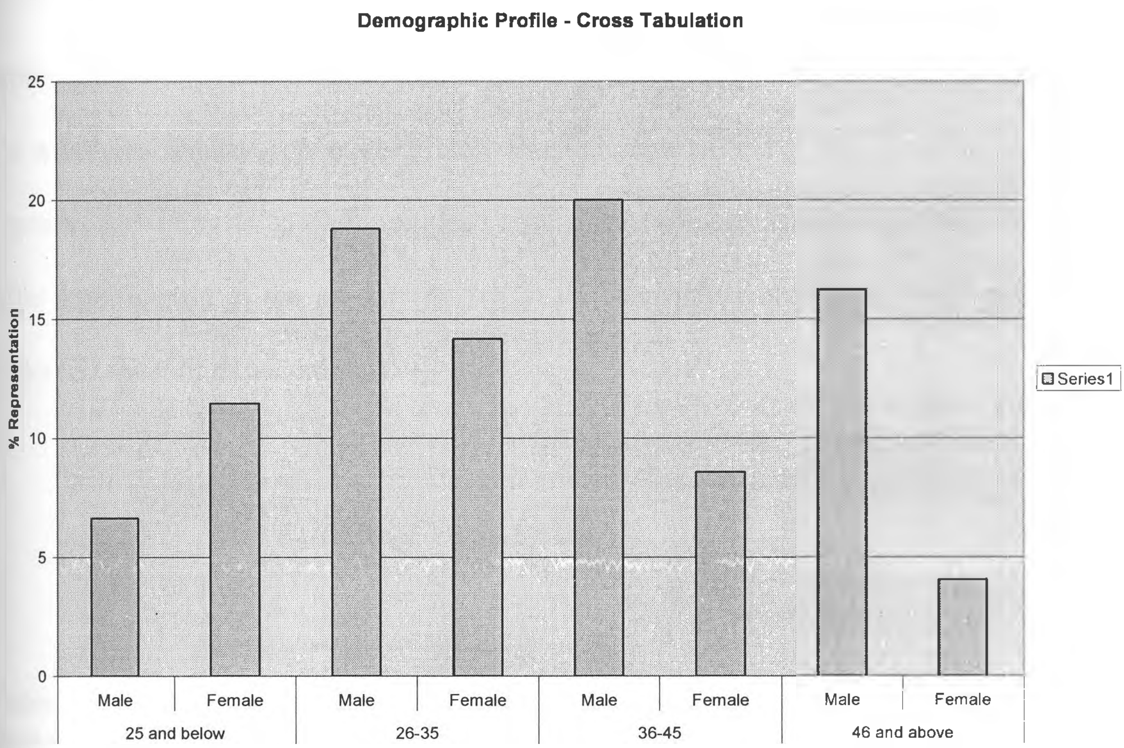
As can be seen in the table, sample of customers assessing the service quality of commercial banks included more males (61.7 percent) than females, more high school education (44.1 percent) than other categories, and more married (69.6 percent) than other categories. Majority of them were between the ages 26-35 (33 percent), operates in the sector of business and personal services (40.5 percent), and usually work with local banks (68.3 percent).



Source: primary data



Source: primary data



Source: primary data

4.2. SERVQUAL Scores of Customer Expectations and Perceptions

Respondents' expectations and perception of service quality took part in Table 2. As shown in the table SERVQUAL scores for all items bear negative signs meaning that expectations are greater than performance, then perceived quality is less than satisfactory and a service quality gap materializes. Even though SERVQUAL score for item 4 is negative, according to "paired samples t test" means of perception and expectation do not differ significantly at the $p < .05$ ($.958 (p) > .05$). In other words, for 21 out of 22 items banks fall short of expectations.

Table 2: Average SERVQUAL Scores of Customer Expectations and Perceptions in Commercial Banks

Dimension	No	Item	Perception	Expectation	SERVQUAL Score	Sig. (*p*)
Tangibles	1	Excellent banks have modern looking equipment	4.87	5.61	-.744	.000
	2	An excellent bank's physical facilities are visually appealing	5.04	5.62	-.577	.000
	3	An excellent bank's reception desk employees are neat in appearance	4.88	5.48	-.599	.000
	4	An excellent bank's credit cars, cheques and similar materials are visually appealing	5.56	5.57	-.013	.958
Reliability	5	When an excellent bank promises to do something by a certain time, it does so	5.57	6.06	-.489	.000

	6	When customers have problems employees in an excellent bank will be sympathetic and reassuring	5.4	6.02	-.621	.000
	7	An excellent bank performs the service right the firs time	5.45	6.15	-.692	.000
	8	An excellent bank provides its services at the time it promises to do so	5.37	6.03	-.665	.000
	9	An excellent bank insists on error-free records	5.63	6.27	-.634	.000
Responsiveness	10	Employees in an excellent bank tell you exactly when the services will be performed	5.45	5.98	-.533	.000
	11	Employees in an excellent bank give you prompt services.	5.26	5.88	-.612	.000
	12	Employees in an excellent bank are always willing to help you	5.04	5.63	-.590	.000
	13	Employees in an excellent bank are never too busy to respond to customers' questions	5.07	5.50	-.427	.002
Assurance	14	Employees in an excellent bank insist confidence in customers	5.34	5.96	-.626	.000
	15	Employees in an excellent bank provide sufficient trust to customers placing confidence in employees in this respect.	5.50	6.10	-.599	.000
	16	Employees in an excellent bank always respect customers.	5.52	6.11	-.590	.000

	17	Employees in an excellent bank have necessary knowledge to answer customers' questions.	5.21	5.91	-.699	.000
Empathy	18	An excellent bank gives customer individual attention	4.87	5.73	-.859	.000
	19	19. An excellent bank has working hours suitable for all customers	4.47	5.19	-.718	.000
	20	An excellent bank has employees who give customer personal attention	4.45	5.38	-.930	.000
	21	An excellent bank has customer's best interest at heart	4.55	5.40	-.855	.000
	22	The employees of an excellent bank understand customer specific needs	4.53	5.35	-.824	.000

Source: primary data

Table 3 shows SERVQUAL scores presented in line with five dimensions. These dimensions include tangibles, reliability, responsiveness, assurance and empathy. Based on the quality dimensions empathy has the highest negative SERVQUAL scores. In other words, compared with other factors, satisfactory level of emphatic behavior is lower.

Table 3: SERVQUAL Scores of Quality Dimensions

Dimension	N	SERVQUAL Scores (Average)	Sig. (*p*)	Relative Importance (weights) of Quality Dimensions	Weighted SERVQUAL Score

				Stated by Customers (%)	
Tangibles	3	-.64000	.007	16.77290	-0.10734
Reliability	5	-.62020	.000	27.62948	-0.17135
Responsiveness	4	-.54050	.001	20.18326	-0.10909
Assurance	4	-.62850	.000	20.27490	-0.12742
Empathy	5	-.83720	.000	15.13944	-0.12674
Total un-weighted SERVQUAL score		-.65328			
Total weighted SERVQUAL score					-0.64197

Source: primary data

Respondents' rating of quality dimensions are also shown in Table 3. In regards to the quality improvement, the most important dimension to which highest rating (27.63 percent) is assigned is reliability. This dimension is followed by assurance and responsiveness respectively. With this, empathy has the highest negative SERVQUAL score and is the least important dimension. Furthermore, the difference between total weighted SERVQUAL score (-0.64197) and total un-weighted SERVQUAL score (-.65328) do not seem noteworthy.

4.3. Significance of Relationship between Demographic Variables and SERVQUAL Scores

By referring to demographic characteristics of Customers in Table 1 and SERVQUAL scores in Table 2 "Independent-Samples t test" and "One-Way ANOVA test" was conducted in order to examine the significance of relationships between them.

According to Levene's Test for Equality of Variances Equal variances assumed is used to check the significance of mean difference since all of the significance values for F is greater than .05 (Table 4). T-test for Equality of Means shows that the hypothesis above is rejected for items 5, 6, 7 and 17 because means for male and females differ significantly at the p< .05. As can be seen in Table 4 SERVQUAL scores of females are lower for these four items. This shows that meeting female expectations relative to those of male is more difficult. Furthermore, it should also be noted that 3 out of this 4 items belongs to quality dimension of reliability. This is because differences in banking preferences between males and females.

Table 4: t test for Equality of Gender SERVQUAL Scores

	Gender	**N**	**Mean**	**Std. Deviation**	**Mean Difference**	**(Levene's Test for Equality of Variances) F Sig.**		t-test for Equality of Means **Sig. (2-tailed)**
Item 5	Female	87	-.8161	1.99143	-.53038	0.582	0.446	0.042
	Male	140	-.2857	1.83603				
Item 6	Female	87	-.9310	1.89732	-.50246	3.287	0.071	0.032
	Male	140	-.4286	1.58293				
Item 7	Female	87	-1.0000	1.72532	-.50000	0.422	0.517	0.026
	Male	140	-.5000	1.57087				
Item 17	Female	87	-1.0115	2.06575	-.50790	3.410	.066	.066
	Male	139	-.5036	1.65790				

Source: primary data

One-Way ANOVA tests conducted for these demographic categories shows that means of SERVQUAL scores for respective categories do not differ significantly.

4.4 Reliability of Model

A model is generally considered reliable if items used in it produce similar results regardless of whom administers them and regardless of which forms are used.

Cronbach's Alpha is designed as a measure of internal consistency; that is, all items within the model should measure the same thing. Alpha is measured on the same scale as a Pearson r (correlation coefficient) and typically varies between 0 and 1. The closer the alpha is to 1.0, the greater the internal consistency of items in the model being assessed. The minimum acceptable value of Alpha for the reliability of the model is 0.5. Reliability of the research designed to measure service quality of commercial banks towards customers can be separately calculated for the overall model or quality dimensions as shown in Table 5.

Table 5: Reliability of Overall Model and Quality Dimensions

One-Way ANOVA tests conducted for these demographic categories shows that means of SERVQUAL scores for respective categories do not differ significantly.

Table 5: Reliability of Overall Model and Quality Dimensions

Quality Dimensions	**Cronbach's Alpha**
Tangibles	.829
Reliability	.807
Responsiveness	.793
Assurance	.784
Empathy	.792
Overall Model reliability	.920

Source: primary data

From Table 5 the following conclusive remarks can be made:

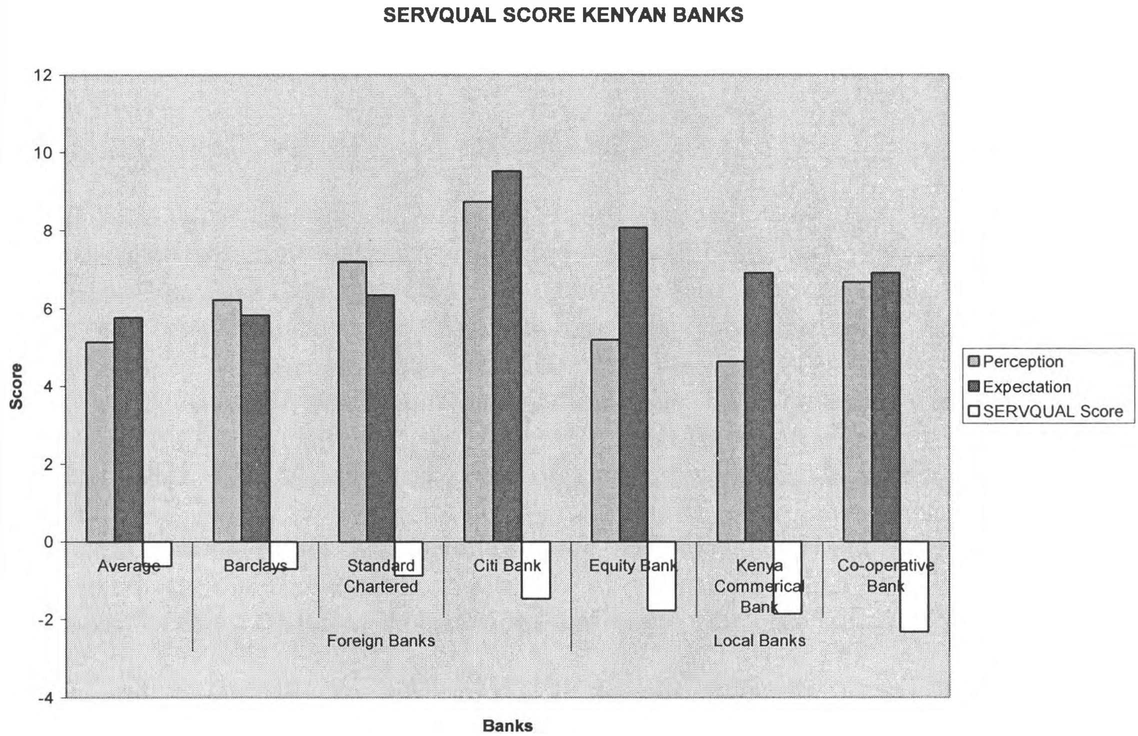
- Overall model reliability is increased to .920 from .908 if item 4 is deleted from the scale.
- The reliability of tangibles as quality dimension is increased to .829 from .646 if item 4 is deleted from the scale.

- The reliability of reliability and responsiveness as quality dimensions are .807 and .793 respectively.
- The reliability of empathy as quality dimension is increased to .792 from .775 if item 18 is deleted from the scale. The results above show that both overall model and quality dimensions can be considered as to have high reliability.

Table 6: SERVQUAL Scores between various banks

	Foreign Banks				Local Banks		
	Average	**Barclays**	**Standard Chartered**	**Citi Bank**	**Equity Bank**	**Kenya Commerical Bank**	**Co-operative Bank**
Perception	5.138	6.217	7.193	8.734	5.189	4.624	6.679
Expectation	5.770	5.827	6.347	9.520	8.077	6.923	6.923
SERVQUAL Score	-0.632	-0.701	-0.876	-1.468	-1.769	-1.857	-2.322
Sig. (*p*)	0.044						

Source: primary data



Source: primary data

From this information, it can be said that the foreign banks have very high perceptions and SERQUAL Scores. With good marketing campaigns through aggressive advertising the banks are able to provide good perceptions on the services they provide (Market Intelligence, 2006).

It can be said that most of the products provided by local banks are tailor made for the Kenyan Market while Foreign Banks have standard products across the various economies they are present. This explains why the expectations for the local are high since their products have to really address customer expectations (Botton and Drew, 1991)

CHAPTER FIVE

CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

In this competitive environment, success inevitably depends on following market policy of customer orientation in order to gain competitive edge. Therefore, firms that are not able to meet customer needs and expectations will be eventually driven away from market (Dalton, 1998). From the point of view of commercial banks service quality should be functional rather than technical issue. SERVQUAL as the quality measurement instrument focusing customer expectations and perceptions are the most popular method used in service sector like banking. In this study, service quality of commercial banks in Kenya was measured by using the SERVQUAL method.

According to demographic findings in this study, majority of respondents university graduates and can provide independent views on issues without being biased (Cronin and Taylor, 1992). From the responses collected, the expectations of customers on service quality items except one item were higher than bank performance (perceptions). When quality dimensions are considered, the largest discrepancy between expectations and perceptions of customers was in terms of the "empathy" dimension. In other words, perceived quality is less than satisfactory and a service quality gap materializes. Hence, customer dissatisfaction occurs and opportunities of which "empathy" dimension comes first arise for better meeting customer expectations. Furthermore, highest and lowest relative importance assigned to quality dimensions belong to "reliability" and "empathy" respectively. However, when the weights assigned to quality dimensions are considered highest negative SERVQUAL score is carried by reliability (Anderson E. W. and Fornell C., 1994).

When the relationship between demographic characteristics and SERVQUAL items are examined, gender differences proved to create significant results for 4 out of 22 items whereas SERVQUAL scores do not differentiate according to other demographic features (Gronroos C., 1988). From a viewpoint of financial service marketer, research findings suggest that especially for reliability dimension commercial banks should be more female oriented than male.

Service Quality vs Age brackets

The study shows that most of the bank account holders are between the ages of 26 and 45 which represent the working class in the country. Most of the account holders in this group mainly use the accounts for receiving salaries from their employers with a few using these accounts for saving purposes. This can be attributed to the harsh economic conditions in the country where there is low propensity to save.

With this information, banks have to tailor their products such that account holders do not withdraw all their income at once and transfer them to "mattress accounts". To ensure that customer retain their salaries in their accounts banks have to provide services such as Debit Cards for using at ATMs and Point-of-Sale (POS) terminals, utility payment capabilities from ATMs. The resulting transactional revenues from such services in the form of fees, commissions and charges can be very huge where a bank commands a huge market share e.g. Equity Bank with one million customers and each customer transacts ones per using their debit card at a transaction fee of Kshs 10 implies that the bank makes Kshs 10 million as revenue.

Service Quality vs Gender

From the results obtained in this study, there are more male account holders than females in Kenya. From the results of the last population census, there are more females in the country than the male counterparts. The study also shows that the score on service expectations for female is lower than for male. With this information it implies that banks can attract more women into banking services without providing huge capital investments for advertising, branding, sophisticated quality improvement programmes.

From the study, it is apparent that each bank offers unique banking products that are exclusive to women, with some banks having more women than others. With this information from this study, banks with high women population need to ensure that the other banks to do not improve there quality programmes on attracting women leading to women moving from one bank to another.

Service Quality vs Banks

From the study, it shows that the local banks do not put a lot of emphasis on quality programmes as compared to the international banks. This can be attributed to the fact that the international banks have standardized quality programmes at Group level which are rolled out to each respective country at subsidized pricing due to economies of scales.

With this, the local banks can unite and form unified consultative quality initiative programmes which can further be customized by each respective bank for uniqueness.

International banks have low expectations as compared to the local banks since they have stringent controls (Credit rules, Account opening – Anti Money Laundering rules) which makes access to credit very difficult. For the local banks access to credit is high which can be attributed to the high score on expectation. With this the international banks have to review the credit risk control toolkits and customize them to meet the local market requirements.

Suggestions for further research

- Future researchers should focus on the following issues:
- How does competition affect quality of services offered by banks?
- How effective has the quality of banking services been affected by regulations
- How the quality of services affected by our cultures?
- What role will quality of banking of banking services play in achieving vision 2030

As a conclusive remark it should be pointed out that even though SERVQUAL score can theoretically reach up to -6, the scores found as less than -1 show that commercial banks can easily fill the gap and meet service expectations of customers by only increasing their customer orientation(Duncan and Elliott, 2002).

CHAPTER SIX

REFERENCES

Anderson J., Rundgstusanatham M.,and Schroeder R. (1994) "A Theory of Quality Management Underlying the Deming Management Method". Academy of Management Review. Vol.19 No3 pp472 –509.

Anderson W. and Sullivan M. 1993. "The Antecedents and Consequences of Customer Satisfaction For Firms." Marketing Science 12 (Spring): 125-143.

AndersonW, Fornell C, and. Lehmann R. 1994. "Customer Satisfaction, Market Share, and Profitability: Findings From Sweden." Journal of Marketing 58 (July): 53-66.

Anderson W, Norman H. 1981. Foundations of Information Integration Theory. New York: Academic Press, Inc.

Anderson W, Rolph E. 1973. "Consumer Dissatisfaction: The Effect of Disconfirmed Expectancy on Perceived Product Performance." Journal of Marketing Research 10 (February): 38-44.

Central Bank of Kenya, 2002 "Monthly Economic Report for the Month of September", CBK.

Cronin J.J, Jr. and Taylor S, 1992. "SERVPERF versus SERVQUAL: Reconciling Performance-Based and Perceptions-Minus-Expectations Measurement of Service Quality".Journal of Marketing, Vol. 58, No. 1 (Jan., 1992), pp. 125-131)

Deming W.E. (1986) "Out of Crisis, Cambridge Masachusetts Institute of Technology"

Daily Nation, August,3 2006 Watchdog column.

Donald O. (1993). "Quality Service Standards and Performance Information", Quality Service Standards, Canberra Bulletin of Public Administration No 74

Helson , Harrison. 2000. Adaptation-Level Theory. New York: Harper & Row, Publishers, Inc.

Fitzsimmons J and Fitzsimmons M, (1998). "Service Management: Operations, Strategy and Information Technology.

Jenks S.F (1995). "Measuring Quality of Care Under Medicare and Medicaid". Health Care Financing Review v15n4, pp39-54

Johns N. and Tyas P (1997). "Customer perceptions of service operations: Gestalt, incident or mythology". Services Industries Journal v17n3, pp. 474 -488

Johnson and Scholes, 2002. "Exploring Corporate Strategy". Prentice Hall of Europe, 5th Edition.

KBA, 2002 " Kenya Banking Code of Ethics and Standards' Kenya Bankers Association.

Meyer, Robert J. 1981. "A Model of Multiattribute Judgments Under Attribute Uncertainty and Informational Constraint." Journal of Marketing Research 18 (November): 428-441.

Newman, Joseph W. and Richard A. Werbel. 1973. "Multivariate Analysis of Brand Loyalty for Major Household Appliances." Journal of Marketing Research 10 (November): 404-409.

Offner R (1993) "Service Quality Standards: a New South Wales Perspective", Quality Service Standards, Canberra Bulletin of Public Administration No 74

Oliver, Richard L. and Bearden W. 1983. "The Role of Involvement in Satisfaction Processes." In Advances in Consumer Research, Vol. 10. Eds. Richard P. Bagozzi and Alice M Tybout. Ann Arbor, MI: Association for Consumer Research, 250-255.

Olson, Jerry C. and. Dover P. 1979. "Disconfirmation of Consumer Expectations Through Product Trial." Journal of Applied Psychology 64 (2): 179-189.

Parasuraman A., Berry L., and Zeithaml V (1991); "Refinement and Reassessment of the SERVQUAL Scale". Journal of Retailing. v67n4, pp 420 - 450

Parasuraman A., Zeithaml V., Berry L (1988) "A Multiple Item Scale for Measuring Consumer Perceptions of Service Quality". Journal of Retailing, v64nl, pp12-40

Parasuraman et al (1991); "Understanding Customer Expectations of Service". Sloan Management Review.

Parasuraman, A.,. Zeithaml V, and Berry L. 1994. "Reassessment of Expectations as a Comparison Standard in Measuring Service Quality: Implications for Further Research." Journal of Marketing 58 (January): 111-124.

Patterson, Paul G., Lester W. Johnson, and Richard A. Spreng. 1997. "Modeling the Determinants of Customer Satisfaction for Business-to-Business Professional Services." Journal of the Academy of Marketing Science 25 (Winter): 4-17.

Thaler, Richard. 1985. "Mental Accounting and Consumer Choice." Marketing Science 4 (Summer): 199-214.

Tse, David K. and Peter C. Wilton. 1988. "Models of Consumer Satisfaction Formation: An Extension." Journal of Marketing Research 25 (May): 204-212.

Woodruff R.B. and Fisher S. (1996) "Know Your Customer: New Approaches to Understanding Customer Value and Satisfaction"

Woodruff, Robert B., Ernest R., and Jenkins R. 1983. "Modeling Consumer Satisfaction Processes Using Experience-Based Norms." Journal of Marketing Research 20 (August): 305-314.

Yates, Daniel S.; Moore D, Daren S. Starnes (2008). The Practice of Statistics, 3rd Ed.. Freeman. ISBN 978-0-7167-7309-2.).

Zeithaml V, Berry L, and Parasuraman A. 1993. "The Nature and Determinants of Customer Expectations of Service." Journal of the Academy of Marketing Science 21 (Winter): 1-12.

CHAPTER SEVEN

A QUESTIONNAIRE SURVEY ON EVALUATION OF THE SERVICE QUALITY IN KENYAN COMMERCIAL BANKS

It is important for you to know *that the following questions will help us know a little bit about the group of people who are filling in this questionnaire. It is not possible to know who is filling in this questionnaire from these answers.*

1 Kindly indicate your employment status

Unemployed	
Self Employed - Professional Services	
Self employed - Business	
Employed – Government sector	
Employed – Private sector	

2 Kindly state your Gender

Male	
Female	

3 Kindly indicate your age bracket

15 - 24	
25 - 39	
40 - 54	
55 & over	

4 Kindly state your Nationality status

Kenyan	
Non - Kenyan	

PART 2

Your answers to the following questions will help the researcher know what consumers think is important in the banking services.

Instructions

Please indicate how much you agree with the following statements by choosing a number from one to five.

For example:

If you strongly agree, pick a number from the far right of the scale (the end with the number 5).

If you strongly disagree with the statement, pick a number from the left end of the scale (the end with the number 1)

If you neither strongly agree nor disagree, pick a number somewhere in the middle, showing whether you agree or disagree a bit.

		Strongly Disagree			Strongly Agree	
		1	2	3	4	5
1	**Do you agree that bank services should have facilities that look smart and business like?**					
2	**Do you agree that staff in bank service should be neatly dressed?**					
3	**Do you agree that bank services should use computers to do their work where possible?**					
4	**Do you agree that information on the bank service should be interesting to read and nice to look at?**					
5	**Do you agree that staff in bank service should always be available to start appointments on time?**					
6	**Do you agree that staff should always tell me how long something might take, even if you are disappointed in the answer?**					
7	**Do you agree that the bank service should always have someone available to talk to if you have a problem with the banking services?**					
8	**Do you agree that bank service should keep accurate records at all times?**					
9	**Do you agree that staffs are expected to be able**					

	to tell you when things are going to happen in the services you receive?					
10	Do you agree that it is reasonable for you to expect everything to happen quickly?					
11	Do you agree that staff should involve you in all the decisions made about the service you receive?					
12	Do you agree that staff should always be willing to help you?					
13	Do you agree that services should offer different types of help that can be chosen by a person according to their needs and wishes?					
14	Do you agree that you should be able to trust the staff of the service?					
15	Do you agree that you should feel sure that staff are helping you in whatever way they can while undertaking banking service?					
16	Are you in agreement that staff should always be polite and respectful to you?					
17	Do you agree that staff should have a good knowledge of the various services the bank is offering?					
18	Do you agree that staff should provide services in a way that protects your privacy and dignity?					
19	Do you agree that you should receive individual attention from the service encounter?					
20	Do you agree that staff should be expected to have operating hours that are convenient to everyone using the service?					
21	Do you agree that services should have easily accessible ways through which complaints can be fairly heard and quickly resolved?					
22	Do you agree that services should only be					

	expected to provide the same service to everyone, to make sure that it is fair?					
23	**Do you agree that services should be provided in the most efficient way possible?**					

Part 3

<u>Instructions</u>

Please select from the following <u>which is most important</u> to you in each pair of questions, by ticking on the box as shown.
Only mark one box for each pair of questions.

1. Services should have good facilities and equipment. ☐
   Staff should be available to help me when I need them. ☐

2. I am told about what a service can provide and expect to get it. ☐
   Services have nice looking premises. ☐

3. I feel comfortable with the amount of confidentiality I am provided with from the service. ☐
   Staff are always on time for my appointments ☐

4. I know that my records are kept accurately ☐
   When I phone up, there is always someone available to speak to me. ☐

5. The information I have been provided with is nicely printed and presented ☐
   Staff always make me feel that my particular needs matter ☐

6. Staff are keen to understand what my particular needs are ☐
   The equipment that staff use is modern and reasonably new. ☐

7. Staff consider my particular needs in the way they arrange services ☐

Services are provided in an efficient way.

8. The service is easy to get to
Staff listen to me

9. I feel sure that if anything is wrong with the service I receive, I will be able to tell a staff member and have something done about it
I know that help is being provided to get me a job as soon as possible.

10. Different types of help are available according to the needs and wishes of the individual.

I trust the staff who are helping with the banking service

11. Staff provides services in a way that protects my dignity and privacy.

Staff have my best interests are heart in the way services are provided

12. Staff always return calls to any message that I leave
Staff understand when I tell them about the difficulties I experience with the banking services

Please place this questionnaire in the envelope provided, and hand it over to the research assistant

Appendix I

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE.....5th June 2008.......

TO WHOM IT MAY CONCERN

The bearer of this letter .....GACHIE THOMAS KAREITHI.....

Registration No: ....D/61/P/8893/99.......

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

Appendix II

LIST OF BANKS IN KENYA

	Bank Name	Location	Status
1	African Banking Corporation	Nairobi	
2	Akiba Bank	Nairobi	
3	Bank of Baroda	Nairobi	
4	Bank of India	Nairobi	foreign owned
5	Barclays Bank of Kenya	Nairobi	listed on NSE
6	CFC Bank	Nairobi	listed on NSE
7	Charterhouse Bank	Nairobi	
8	Chase Bank Ltd	Nairobi	
9	Citibank	Nairobi	foreign owned
10	City Finance Bank	Nairobi	
11	Co-operative Bank of Kenya	Nairobi	
12	Commercial Bank of Africa	Nairobi	
13	Consolidated Bank of Kenya Ltd	Nairobi	Govt owned
14	Credit Agricole Indosuez	Nairobi	foreign owned
15	Credit Bank Ltd	Nairobi	
16	Daima Bank Ltd	Nairobi	
17	Delphis Bank	Nairobi	
18	Development Bank of Kenya	Nairobi	
19	Diamond Trust Bank	Nairobi	
20	Dubai Bank Kenya Ltd	Nairobi	
21	Equatorial Commercial Bank Ltd	Nairobi	
22	Equity Bank	Nairobi	listed on NSE
23	Family finance	Nairobi	
24	Fidelity Commercial Bank Ltd	Nairobi	
25	Fina Bank Ltd	Nairobi	
26	First American Bank of Kenya	Nairobi	
27	Giro Commercial Bank Ltd	Nairobi	
28	Guardian Bank	Nairobi	
29	Habib Bank A.G. Zurich	Nairobi	foreign owned
30	Habib Bank Ltd, Nairobi	Nairobi	foreign owned
31	Housing Finance Co. Ltd	Nairobi	listed on NSE
32	Imperial Bank	Nairobi	
33	Industrial Development Bank	Nairobi	Govt owned
34	Investment & Mortgages Bank Ltd	Nairobi	
35	K-Rep Bank Ltd	Nairobi	
36	Kenya Commercial Bank Ltd	Nairobi	Govt/listed on NSE
37	Middle East Bank	Nairobi	
38	National Bank of Kenya	Nairobi	Govt/listed on NSE
39	National Industrial Credit Bank Ltd	Nairobi	listed on NSE

40	Oriental Commercial Bank Ltd	Nairobi	
41	Paramount Universal Bank Ltd	Nairobi	
42	Prime Bank Ltd	Nairobi	
43	Prime Capital and Credit Ltd	Nairobi	
44	Southern Credit Banking Corp. Ltd	Nairobi	
45	Stanbic Bank Kenya Ltd	Nairobi	foreign owned
46	Standard Chartered Bank	Nairobi	listed on NSE
47	Trans-National Bank Ltd	Nairobi	
48	Victoria Commercial Bank Ltd	Nairobi	

Source: http://www.centralbank.go.ke/bankinfo/banks.asp